

Message Text

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ACTION EUR-12

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OES-09 DOE-15 SOE-02 INT-05 SMS-01 /169 W
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R 311742Z AUG 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 6764
INFO AMEMBASSY BONN
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USMTN

PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

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REF: PARIS 25789, AUGUST 17, 1978

1. SUMMARY

EXTERNAL TRADE WAS IN SURPLUS FOR THE SIXTH CONSECUTIVE
MONTH; CALL MONEY RATES ARE AT A TWO-YEAR LOW, WHILE THE
RATES OF INFLATION AND UNEMPLOYMENT ACCELERATED.

2. JULY EXTERNAL TRADE CONTINUED IN SURPLUS

THE STEADY IMPROVEMENT IN THE FRENCH TRADE BALANCE
CONTINUED THROUGH JULY:

EXTERNAL TRADE
CORRECTED FOR SEASONAL VARIATIONS
(BILLIONS OF FRANCS)

PERCENT CHANGE
1978 1978 1977 FROM
JUNE JULY JULY JUNE'78 JULY'77

IMPORTS FOB	28.5	29.9	27.4	#4.9	#8.9
EXPORTS FOB	28.9	30.8	26.1	#6.3	#17.7
BALANCE	#0.5	#0.9	-1.3		
PERCENT OF IMPORTS					
COVERED BY EXPORTS	101.6	103.0	95.3		

FOR THE FIRST SEVEN MONTHS OF THIS YEAR THE EXTERNAL
TRADE BALANCE SHOWS A SURPLUS OF F 1.6 BILLION WHILE
DURING THE SAME PERIOD OF 1977 IT SHOWED A DEFICIT OF
F 10.4 BILLION. THIS TREND WAS FAVORED BY THE RELATIVE
WEAKENESS OF THE US DOLLAR AS IT IS ESTIMATED THAT ABOUT
32 PERCENT OF FRANCE'S IMPORTS ARE PAID FOR IN DOLLARS
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AND ONLY 11 PERCENT OF ITS EXPORTS; 14 PERCENT OF ITS
IMPORTS ARE PAID IN DM AND ABOUT 10 PERCENT OF EXPORTS.
OVERALL, 30 PERCENT OF IMPORTS ARE PAID FOR IN FRENCH
FRANCS, 70 PERCENT IN FOREIGN EXCHANGE, WHILE THE
PROPORTIONS FOR EXPORTS ARE ABOUT REVERSED, 66 PERCENT
IN FRANCS AND 34 PERCENT IN FOREIGN CURRENCIES. THUS
TECHNICIANS IN THE FOREIGN TRADE MINISTRY ESTIMATED
THAT SINCE THE BEGINNING OF 1978 FRANCE ECONOMIZED FROM

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3 TO 3.5 BILLION FRANCS, IN PART THROUGH PETROLEUM
IMPORTS, WHICH ARE AMONG THOSE IMPORTS PAID FOR IN
DOLLARS.

IN ITS COMMENT ON THE JULY DATA, THE FOREIGN TRADE
MINISTRY POINTED OUT THAT FOOD AND AGRICULTURAL
PRODUCTS WERE IN BALANCE, PROCESSED GOODS SHOWED A
SURPLUS (PLUS 218 BILLION FRANCS), AND CRUDE MATERIALS
A DEFICIT (MINUS 305 MILLION FRANCS). AS COMPARED
WITH THE CORRESPONDING PERIOD OF 1977, FRENCH EXPORTS
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CONTINUED TO INCREASE MUCH MORE RAPIDLY THAN IMPORTS
(SEE PARIS 24354 OF 8/3/78). STILL, THE FRENCH
FOREIGN TRADE SITUATION REMAINS VULNERABLE.

THE PRESENT STRENGTH OF THE FRANC VIS-A-VIS THE DOLLAR
OBSCURES THE PICTURE. IF A TEN PERCENT RISE IN THE
PRICE OF CRUDE PETROLEUM OCCURS, WHICH IS NOT
IMPOSSIBLE IN THE IMMEDIATE FUTURE, AND THE FRENCH
TRADE BALANCE WOULD BE IN DEFICIT AGAIN.

3. SHARP INCREASE IN JULY RETAIL PRICES

THE FRENCH CONSUMER PRICE INDEX ROSE BY 1.2 PERCENT IN JULY, THE SHARPEST INCREASE FOR ANY SINGLE MONTH SINCE APRIL 1977. IT WAS 9.3 PERCENT ABOVE JULY 1977. PART OF THE JULY INCREASE REFLECTS GOVERNMENT MEASURES WHICH WERE FULLY EFFECTIVE IN JULY SUCH AS THE 11 PERCENT HIKE IN GASOLINE AND FUEL PRICES AND THE INCREASE IN PUBLIC TRANSPORTATION. THESE INCREASES ALONE HAD AN INCIDENCE OF 0.3 PERCENT DURING THE MONTH. BUT EVEN THE REMAINING 0.9 PERCENT IS A RELATIVELY HIGH INCREASE CONSIDERING THE FACT THAT FOOD PRODUCTS SHOWED A SMALL INCREASE (0.6 PERCENT) FOR THE SECOND CONSECUTIVE MONTH (PLUS 0.3 PERCENT IN JUNE). FOOD PRICES ARE NOW ONLY 7.7 PERCENT ABOVE JULY 1977.

THERE WILL NOW BE A ONE MONTH PERIOD OF GRACE. THE INCREASE IN THE AUGUST INDEX IS LIKELY TO BE MODERATE. A LARGE NUMBER OF SALES OUTLETS WERE CLOSED, AND PRICING FACILITIES WERE LIMITED. ONLY LATER ON (END OF OCTOBER) WILL IT BE POSSIBLE TO SEE THE RESULTS OF THE NEWLY ATTAINED PRICE FREEDOM AT THE PRODUCER LEVEL.

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4. MINIMUM WAGE TO RISE

THE CPI BEING A YARDSTICK FOR THE LEGAL HOURLY MINIMUM WAGE RATES, THE "SMIC" WILL ALMOST CERTAINLY BE RAISED BY TWO PERCENT TO F 1,925 PER MONTH FOR A FORTY HOUR WORK WEEK (FROM F 1,888). MINIMUM HOURLY WAGE RATES WOULD RISE TO F 11.06 FROM 10.85. IN THEORY THE GOVERNMENT COULD DELAY THESE WAGE INCREASES AS THE PRICE INDEX IN JULY (201.3) WAS ONLY 1.98 PERCENT ABOVE THE MAY LEVEL, AND A TWO PERCENT INCREASE IS MANDATORY TO TRIGGER OFF THE MINIMUM RISE.

5. AVERAGE HOURLY WAGE RATES ROSE RAPIDLY

EARLY ESTIMATES OF AVERAGE HOURLY WAGE RATES INDICATE THAT THEY MIGHT HAVE RISEN BY ABOUT FIVE PERCENT DURING THE SECOND QUARTER OF THIS YEAR, AFTER THE RELATIVELY LOW INCREASE OF ONLY 2.2 PERCENT DURING THE FIRST QUARTER. THE SURPRISINGLY LARGE INCREASE, IF IT DOES MATERIALIZE, IS NOT YET FULLY EXPLAINED. FRENCH CIVIL SERVANTS WILL GET A RAISE OF 2.5 PERCENT EFFECTIVE SEPTEMBER 1.

6. UNEMPLOYMENT SITUATION WORSENS

THE NUMBER OF JOB SEEKERS ROSE TO 1,241,100 PERSONS BY

THE END OF JULY FROM 1,186,100 ONE MONTH AGO (COMPARISON WITH PREVIOUS YEAR IS NOT POSSIBLE DUE TO CHANGE OF CALCULATION BASE). BY US STANDARDS THE UNEMPLOYMENT RATE IS NOW ABOUT 5.4 PERCENT OF THE LABOR FORCE.

THE UNEMPLOYMENT SITUATION IS BOUND TO BECOME WORSE IN THE COMING MONTHS; A LARGE NUMBER OF LAY-OFFS IS ANTICIPATED, AND THE SECOND NATIONAL PACT FOR EMPLOYMENT IS MORE MODEST THAN LAST YEAR'S.

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ONCE AGAIN PARTISAN, POLITICALLY MOTIVATED DISPUTES OVER THE TRUE EXTENT AND NATURE OF FRANCE'S UNEMPLOYMENT ARE GENERATING A GREAT DEAL OF PUBLICITY.

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7. NO DECREASE IN GASOLINE PRICES

DURING THE REPORTING PERIOD ECONOMIC MINISTER MONORY SUGGESTED A TOKEN REDUCTION IN THE PRICE OF GASOLINE AND FUEL TO REFLECT THE DROP IN THE DOLLAR RATE. THIS MEASURE, ALTHOUGH POPULAR, NOW HAS BEEN SQUASHED BY PRIME MINISTER BARRE ON THE GROUNDS THAT PETROLEUM IS A SCARCE COMMODITY AND PEOPLE SHOULD BE DISCOURAGED FROM USING TOO MUCH OF IT. MOREOVER, THE LION'S SHARE OF THE GASOLINE RETAIL PRICE CONSISTS OF TAX REVENUE, AND IN ANY CASE THE PRICE OF IT IS BOUND TO INCREASE FURTHER TO FINANCE PART OF THE COMING BUDGET DEFICIT. UNCLASSIFIED

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8. BIG 1979 BUDGET DEFICIT

THE SIZE OF THE FRENCH BUDGET, WHICH WAS ALMOST F 400 BILLION IN 1978, IS EXPECTED TO REACH ABOUT F 450 BILLION IN 1979. IT WILL BE PRESENTED BY THE COUNCIL OF MINISTERS ON SEPTEMBER 6 AND SUBMITTED TO THE NATIONAL ASSEMBLY'S FINANCE COMMISSION IMMEDIATELY USMTN USEEC

THEREAFTER. ON THE SAME DAY BUDGET MINISTER MAURICE PAPON WILL PRESENT AN OUTLINE OF THE 1979 FINANCE LAW. FROM OCTOBER 11 TO 17 THE NATIONAL ASSEMBLY WILL DISCUSS BUDGETARY RECEIPTS; EXPENDITURES WILL THEN BE DISCUSSED THROUGH NOVEMBER 19. ACCORDING TO PRESS REPORTS, THE BUDGET DEFICIT WILL EXCEED F 15 BILLION. IT IS LIKELY THAT INDIRECT TAXES FOR TOBACCO, ALCOHOL, AND GASOLINE WILL BE RAISED AGAIN, THAT SPECIAL TAX ALLOWANCES TO A LARGE NUMBER OF PROFESSIONAL CATEGORIES WILL BE REDUCED, AND THAT EARLIER PROMISES NOT TO INCREASE PERSONAL INCOME TAXES WILL NOT BE EXTENDED TO THE "HIGH BRACKET INCOMES".

9. 1978 BUDGET DEFICIT ABOUT F 20 BILLION

PRIME MINISTER BARRE STATED IN A PRESS INTERVIEW THAT THE 1979 BUDGET DEFICIT WOULD BE ABOUT F 20 BILLION, WHICH CORRESPONDS TO THE AMOUNT MENTIONED BY THE FRENCH PRESIDENT AT THE BONN SUMMIT MEETING ONE MONTH AGO. ACCORDING TO HIM, THE FINANCING OF THE DEFICIT WOULD NOT PRESENT ANY PROBLEM THANKS TO THE LEVEL OF SAVINGS IN FRANCE.

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10. CONTINUED SLOW GROWTH IN INDUSTRY

THE LATEST SURVEY OF INSEE ON TRENDS IN FRENCH INDUSTRY, WHICH IS CONDUCTED THREE TIMES A YEAR, CONFIRMS EARLIER MONTHLY SURVEYS CONCLUDING IN CONTINUED GROWTH THROUGH THE REST OF THE YEAR. INDUSTRIAL PRODUCTION WAS LEVELLING OFF AT MID-YEAR, AT A LEVEL BETWEEN 2 AND 3 PERCENT ABOVE THAT REGISTERED AT THE END OF 1977. FOREIGN DEMAND TAPERED OFF SOMEWHAT IN JUNE, BUT DOMESTIC DEMAND WAS RELATIVELY STRONG IN THE SECOND QUARTER, PARTICULARLY FOR CONSUMER GOODS. INVENTORIES DECLINED SOMEWHAT AND REPRESENTED SIX WEEKS OF PRODUCTION IN JUNE, AS COMPARED WITH 6.2 WEEKS IN MARCH. INDUSTRY WAS WORKING AT 84 PERCENT CAPACITY IN JUNE, BUT ONLY 19 PERCENT OF ENTERPRISES WERE WORKING AT FULL CAPACITY. EMPLOYMENT CONTINUED TO DECLINE BUT AT A SLOWER RATE THAN IN 1977. THERE WERE FEW PROBLEMS WITH RESPECT TO LIQUIDITY OF ENTERPRISES.

BUSINESS LEADERS EXPECT ONLY SLOW GROWTH OF DEMAND FOR THE REST OF THE YEAR, AND CONSUMPTION OF HOUSEHOLDS COULD EVEN DECLINE SOMEWHAT. FOR THE IMMEDIATE FUTURE BUSINESS LEADERS FORECAST A PAUSE IN INDUSTRIAL GROWTH AT THE LEVEL ATTAINED DURING THE SECOND QUARTER OF 1978. GROWTH IN PRODUCTIVE INVESTMENT WILL BE MODERATE IN 1978 EXCEPT FOR THE PUBLIC SECTOR.

INSEE'S FORECAST OF
PRODUCTIVE INVESTMENT
IN 1978

PERCENT OF ALL VOLUME INCREASE
ACTIVITIES -77 FROM '77 TO '78

PUBLIC SECTOR	20	8.5
PRIVATE INDUSTRY	33	3.5

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(ENTERPRISES COVERED
BY THE SURVEY)

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AGRICULTURE 9 0

ENERGY 2 8

BUILDING AND PUBLIC WORKS 4 MINUS 5

TRANSPORTATION 7 2

SERVICES, COMMERCE 25 3

TOTAL OF PRODUCTIVE INVESTMENT 100 3.7

11. PARIS BOURSE AFFECTS SLOWDOWN IN ECONOMIC GROWTH

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DURING THE REPORTING PERIOD AVERAGE PRICES OF SHARES DROPPED BY AN AVERAGE OF 2 PERCENT. THIS DEVELOPMENT IS IN LINE WITH THE UNCERTAIN ECONOMIC PROGRESS FORECAST FOR THE SECOND HALF OF THE YEAR.

12. FOREIGN BORROWING UP IN JULY

THE AMOUNT OF FOREIGN BORROWING ROSE TO F 1.3 BILLION IN JULY AFTER HAVING BEEN 0.53 BILLION IN JUNE, 0.67 IN MAY, AND 0.46 IN APRIL. IT IS EXPECTED THAT FOREIGN BORROWING WILL BE STEPPED UP DURING THE REST OF THE YEAR TO REACH A TOTAL OF ABOUT F 15 TO 16 BILLION FOR 1978.

13. DOMESTIC BORROWING ALSO UP

FRENCH NET DOMESTIC BOND ISSUES INCREASED TO F 5.2 BILLION IN JULY, UP FROM 3.1 IN JUNE, AND 3.75 IN JULY 1977. FOR THE FIRST SEVEN MONTHS OF 1978 THEY TOTALLED F 27.8 BILLION, COMPARED TO 30.3 DURING THE FIRST SEVEN MONTHS OF 1977.

14. HIGHER RATE OF GROWTH FOR MONEY SUPPLY IN APRIL

THE MONEY SUPPLY (M2) INCREASED BY 13.7 PERCENT DURING THE 12 MONTH PERIOD ENDING IN APRIL, UP FROM 13.4 PERCENT FOR THE SAME PERIOD ENDING IN MARCH. THUS, THE MONEY SUPPLY IS TENDING TO EXCEED THE 12 PERCENT TARGET FIXED FOR THIS YEAR DUE PRIMARILY TO SUBSTANTIAL INFLOWS OF FOREIGN EXCHANGE. HOWEVER THE RATE OF GROWTH IS STILL BELOW THE DECEMBER 1976-1977 RATE WHICH WAS 13.9 PERCENT.

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THE SEASONALLY ADJUSTED MONEY SUPPLY (M2) INCREASED BY 1.3 PERCENT IN APRIL AFTER HAVING INCREASED BY ONLY 0.8 PERCENT IN MARCH. M1 INCREASED BY 2.0 PERCENT IN APRIL COMPARED TO NO CHANGE IN MARCH WHILE QUASI-MONEY SHOWED NO CHANGE COMPARED TO A 1.7 PERCENT INCREASE IN MARCH.

FIGURES FOR MARCH AND APRIL, WHICH ARE AVAILABLE ONLY ON AN UNADJUSTED BASIS, ARE THE FOLLOWING:

MONEY SUPPLY
(BILLION FRANCS)

MARCH APRIL

M1	500.08	5LL.77
QUASI-MONEY	497.55	498.83
M2	997.63	1010.60

COUNTERPARTS

NET FOREIGN EXCHANGE RESERVES	43.87	45.82
CLAIMS ON THE PUBLIC SECTOR	131.03	132.42
CLAIMS ON THE PRIVATE SECTOR	883.13	902.91

15. SEE-SAW OF THE DOLLAR

FROM AUGUST 16, WHEN THE DOLLAR HAD DROPPED TO A LONG-
TERM LOW OF F 4.23 FOR \$1, IT RECOVERED TO 4.41 ON
AUGUST 21, TO DROP TO 4.36 ON AUGUST 22, TO SUBSEQUENTLY

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RECOVER TO THE 4.40/4.41 RANGE THROUGH AUGUST 29, TO
DROP SHARPLY AGAIN TO 4.35 ON AUGUST 30, FOLLOWING
THE ANNOUNCEMENT OF THE RECORD US TRADE DEFICIT FOR
JULY. EARLIER MOVEMENTS REFLECTED CHANGE IN US
INTEREST RATES, LIFTING OF THE FEDERAL RESERVE'S
4 PERCENT REQUIREMENT, AND SPECULATION OVER THE
US'S DRAWING ON IMF. THUS, FROM AUGUST 16 TO 30,
THE FRANC LOST 2.7 PERCENT VIS-A-VIS THE DOLLAR;
IT LOST 0.5 PERCENT VIS-A-VIS STERLING; IT LOST
0.8 PERCENT VIS-A-VIS DM, AND IT GAINED 0.3 PERCENT
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VIS-A-VIS THE SWISS FRANC.

16. INTEREST RATES DECLINED

CALL MONEY RATED DROPPED TO 7 PERCENT SINCE AUGUST 22:

ONE MONTH 7-3/16 --7-5/16

THREE MONTHS 7-5/16--7-7/16

SIX MONTHS 7-3/4--7-7/8

ONE YEAR 8-5/16--8-7/16

PRIME RATE TO DROP TO 8.90 (FROM 9.05) EFFECTIVE
SEPTEMBER 4.

17. OTHER REPORTS SUBMITTED DURING THE PERIOD:

TELEGRAMS

28640 VALUE OF TRADE IN MANUFACTURES (CERP 1208)

28397 ACCESSIBILITY OF INFORMATION ON FRENCH BANK
TO BE OWNED BY CITIBANK, N.A.

28347 VALUE OF TRADE IN MANUFACTURES (CERP1208)

28015 FOREIGN TARIFF AND TAX TREATMENT OF GOLD
COIN AND MEDALLION SALES

AIRGRAMS

A-229 FRENCH FOREIGN EXCHANGE HOLDINGS

A-228 FRENCH TRADE W/ SOVIET BLOC, 1ST QTR 1978(5\$--227 FRENCH TRADE

W/ COMMUNIST AREAS, JUNE 1978

A-224 FRENCH FOREIGN EXCHANGE HOLDINGS

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